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By email: AdviceReview@treasury.gov.au

Director
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The Treasury
Langton Crescent
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**Re: Review of the Quality of Financial Advice Draft Terms of Reference consultation**

Ignition Advice welcomes the opportunity to provide feedback in response to the publication of the draft terms of reference of the Quality of Advice Review issued in December 2021.

Ignition Advice is the leading Australian business specialising in digital advice technology. Our vision is to be the leading global advice technology for enterprises seeking to help more customers access financial advice in a fast and scalable way. In addition to operating in Australia, our clients include major European financial institutions Bank of Ireland and the UK’s M&G Plc.

We welcome the Quality of Advice Review’s goal to “consider how the regulatory framework could better enable the provision of high quality, accessible and affordable financial advice for retail investors”.

This is timely. We observe that the policy responses to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, have in fact resulted in advice becoming less accessible and less affordable.

Large numbers of advisers have left the industry, resulting in a contraction of traditional advice capacity. For those who remain, the regulatory framework has become significantly more costly to operate within, resulting in advice provision becoming more costly as well. The ability to secure financial advice at affordable price points (from the perspective of the retail investor) has largely disappeared, and it is now common to see traditional advice providers setting minimum investible asset levels well above typical assets of mass-market retirees and investors.

A large advice gap has opened up between the growing demand from retail investors who would benefit from advice at affordable prices and the shrinking supply and rising price of traditional human-delivered financial advice.

**If a serious step change is to be made towards achieving the Review's proposed goal of "high quality, accessible and affordable financial advice for retail investors", the adoption of digital advice technologies is key. There is no other realistic route to providing low-cost, consistent, compliant, robust personal advice at the sort of scale required to materially close the advice gap.**

There is, however, considerable confusion across the Australian financial services industry about whether digital advice (defined below as the digital enablement of advice delivery) can be delivered in a compliant manner. This compares unfavourably with the UK and Irish financial services industry, where digital advice is moving towards mainstream adoption, and “compliance by design” is considered a significant advantage of digital advice.

Ignition Advice has published a white paper titled “Compliance myths about digital advice” (attached to this submission) which discusses how regulatory settings in Australia already permit:

* Scaled advice, both encouraged by ASIC and permitted by law.
* Single issue personal advice, including in relation to an institution’s own products.
* Satisfaction of the Best Interests Duty and related obligations.

There have also been supportive comments from senior ASIC leaders consistent with the above.

Notwithstanding, there remains considerable institutional uncertainty and risk aversion inhibiting the take-up of digital advice solutions. The Review is an important opportunity to clarify and confirm there is no fundamental obstacle to advice being delivered in a compliant manner via digital means.

Ignition Advice notes the term “digital advice” is increasingly used, but currently encompasses a broad spectrum of services that include education, guidance and advice to retail investors (including investors in managed investment schemes, insurance policyholders and members of superannuation funds). The Review may find it useful to categorise the main types of services to which the term “digital advice” is applied, and we offer the following framework:

* Financial tools and calculators (along with education and general advice) delivered online are *guidance*, rather than financial advice. ASIC defines these as *forecasting tools that are intended to be a helpful prompt for consumers to review their financial situation, and if appropriate, seek further information or financial advice*. Guidance tools receive special regulatory carveouts which ensures they are not considered to be advice, but in return are limited in relation to their assumptions, and the disclosures customers need to understand.
* ***Robo-advice* is primarily or solely about investment advice, rather than financial advice**. Robo-advice is typically an online service which takes customers through a simple fact-find, and then uses algorithm calculators to allocate or suggest a suitable investment portfolio. Robo-advisers provide customers with an opportunity to self-serve, and can be a quicker, more affordable way to invest savings. Robo-advice is delivered as either **general advice or personal advice**, depending on the situation. Because of its relative simplicity and limitation to investments, there are many providers of robo-advice services, ranging from fintechs to major asset managers.
* ***Digital advice* goes further than robo-advice, and is the digital enablement of financial advice delivery**. Digital advice encompasses retirement, insurance and investment needs. It is the digital delivery of **personal advice,** and related Statement of Advice, which complies with the Best Interests Duty and other obligations. Digital advice also uses fact-finds and algorithms, but where robo-advice outlines simply how to allocate an investment, digital advice is a holistic approach which outlines (for example), whether you should be investing outside super or adding to your super, because of affordability, suitability, or complexity of advice needs. This is a far more complex task to perform, and consequently there are far fewer providers of digital advice.

Each of these categories of services has a part to play in assisting and advising retail investors, but it will be only via the adoption of ***digital advice*** as defined above, which provides for advice at scale, that will fundamentally support the Review’s proposed goal.

We welcome the opportunity to comment on the Draft Terms of Reference and look forward to contributing to the Review. If you have any questions regarding our submission, please do not hesitate to contact Craig Keary at craig.keary@ignitionadvice.com.

Yours faithfully,

**Craig Keary**

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